

Message Text

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PAGE 01 BONN 01188 201700Z
ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 CIAE-00 INR-07 NSAE-00 SS-15

PRS-01 FRB-03 /046 W

-----210233Z 117214 /66

R 201649Z JAN 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4885

DEPARTMENT TREASURY

INFO AMEMBASSY ROME

USMISSION EC BRUSSELS

C O N F I D E N T I A L BONN 01188

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW, IT

SUBJECT: ANDREOTTI VISIT TO BONN: FINANCIAL DISCUSSIONS

1. WE ARE CONFIDENTIALLY TOLD (TREAT STRICTLY NOFORN)
BY A PARTICIPANT IN MEETINGS THAT ITALIAN OFFICIALS
ACCOMPANYING ANDREOTTI RAISED WITH THEIR GERMAN COUNTER-
PARTS THE PROPOSED EC LOAN TO ITALY TO MAKE UP FOR THE
WITHDRAWAL OF UK PART OF PREVIOUS EC SUPPORT. ITALIANS
INFORMALLY EXPLORED POSSIBILITY OF LIFTING THE PRESENT
"FREEZE" OF DISCUSSIONS IN EC OF THIS LOAN UNTIL IMF
ASSISTANCE AGREED AND INDICATED THEY FOUND THIS
FREEZE PERPLEXING AND EMBARRASSING. GERMAN OFFICIALS
DISCOURAGED THESE ITALIAN FEELERS, POINTING OUT
THE CONDITIONALITY OF EC LOAN CLOSELY LINKED TO IMF
CONDITIONS AND THAT FRG DESIRED TO WAIT WITH EC
DISCUSSIONS UNTIL IMF CONDITIONS NEGOTIATED. NEGATIVE
GERMAN OFFICIAL REACTION TO ITALIAN FEELERS LED TO
ANDREOTTI HIMSELF NOT RAISING QUESTION OF UNFREEZING
OF EC LOAN DISCUSSIONS WITH THE CHANCELLOR AND AGREED
CONCLUSIONS PAPER ON MEETING (SEE PARA 4 BELOW)
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CONTAINS ONLY GENERAL STATEMENT OF GERMAN SUPPORT FOR
TIMELY IMF AND EC ASSISTANCE TO ITALY WITH NO DOUBT
LEFT IN ITALIANS MIND THAT THE FRG DOES NOT SUPPORT
UNFREEZING OF EC DISCUSSIONS AT THIS TIME. IN A
SEPARATE CONVERSATION, FOREIGN OFFICE SOURCES TELL US
THAT EC COMMISSION IS EXPECTED TO TABLE A PROPOSAL
FOR \$500 MILLION CREDIT (REPLACING UK CONTRIBUTION)

TO ITALY AT THE MEETING OF MONETARY EXPERTS ON
JANUARY 24.

2. CONCERNING THE IMF CREDIT, THE CHANCELLOR HIMSELF
INITIATED DISCUSSION OF THIS TOPIC. HE INDICATED
SUPPORT FOR ITALIAN CREDIT, BUT STRESSED THE NEED TO
"PRESERVE THE AUTHORITY" OF THE IMF AND TO MAKE
ASSISTANCE TO ITALY DEPENDENT ON "TOUGH" CONDITIONS
AS HAD BEEN DONE IN THE CASE OF THE UK. THE
CHANCELLOR STRESSED, HOWEVER, THAT THERE WAS NO
INTENTION TO IMPOSE CONDITIONS WHICH ITALY
"OBJECTIVELY" COULD NOT FULFILL. ANDREOTTI GENERALLY
WELCOMED THE CONDITIONALITY OF IMF ASSISTANCE, BUT
IN LENGTHY DISCUSSION INDICATED THAT IN THE END IT
PROBABLY WOULD BE NECESSARY TO RETAIN SOME REMNANTS
OF "SCALA MOBILE" SYSTEM OF WAGE INDEXATION.

3. CHANCELLOR MADE CLEAR THAT THE FRG IS NOT
WILLING TO CONSIDER FURTHER BILATERAL CREDITS TO
ITALY.

4. FOLLOWING "CONCLUSIONS PAPER" OF MEETING WAS
AGREED TO SERVE AS GUIDANCE FOR PRESS SPOKESMEN BUT
NOT TO BE ISSUED AS FORMAL PRESS RELEASE. PAPER WAS
DRAFTED BY GERMANS AND AGREED BY ITALIANS WHO ADDED ONLY
"AND EARLY" IN THIRD SENTENCE:

BEGIN QUOTE: THE FEDERAL CHANCELLOR FINDS THE
DETERMINED ACTION OF THE ITALIAN GOVERNMENT IN ORDER
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TO REESTABLISH STABLE ECONOMIC CONDITIONS VERY
ENCOURAGING. HE UNDERLINES THAT HE FOLLOWS WITH
GREAT SYMPATHY THE NEGOTIATIONS IN PROGRESS BETWEEN
THE ITALIAN AUTHORITIES AND THE IMF. HE LOOKS
FORWARD WITH CONFIDENCE TO THE POSITIVE AND EARLY
RESULTS OF THESE NEGOTIATIONS AND EXPRESSES HIS
CONVICTION THAT THEY WILL GIVE ADDITIONAL SUPPORT
TO THE ITALIAN STABILIZATION PROGRAMME.

IN THIS CONTEXT THE FEDERAL CHANCELLOR CONFIRMS BOTH
AS A MEMBER OF THE EEC AND THE IMF THE ACTIVE
SOLIDARITY OF THE FEDERAL REPUBLIC OF GERMANY WITH
ITALY. END QUOTE.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, FINANCIAL STABILITY, MINISTERIAL VISITS, NEGOTIATIONS, CREDIT PROGRAMS
Control Number: n/a
Copy: SINGLE
Sent Date: 20-Jan-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN01188
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770022-0403
Format: TEL
From: BONN
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770134/aaaabdqj.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: fdf607d4-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: NOFORN
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: NOFORN
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3551908
Secure: OPEN
Status: NATIVE
Subject: ANDREOTTI VISIT TO BONN: FINANCIAL DISCUSSIONS
TAGS: EFIN, GE, IT, (ANDREOTTI, GIULIO)
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/fdf607d4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009